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MERCANTILE STORES COMPANY, INC.

ANNUAL REPORT

JANUARY 31ST, 1939

MRB
File

15 Exchange Place,
Jersey City, New Jersey,
April 15, 1939.

To the Stockholders of
Mercantile Stores Company, Inc.:

The consolidated balance sheet as of January 31, 1939 and consolidated profit and loss and surplus accounts for the year ending that date of your Company and its subsidiaries are submitted herewith.

The final net loss for the year amounted to $490,114.44 compared with a profit of $36,977.45 for the preceding year.

Sales for the year excluding the McCreery Store amounted to $25,467,539.05, a decline of 10.0% from the preceding year. The total reduction in sales amounted to $6,551,030.20 of which $3,725,700.01 was due to the closing of the McCreery Store in Pittsburgh. Sales as compared with last year declined during the first three quarters by 16.7%, 21.4% and 7.2%, respectively, and increased in the last quarter by 4.7%. Sales since January 31, 1939 to date are ahead of the sales for the comparable period in 1938, but the rate of increase is lower than in the fourth quarter of last year. Substantially more than half the total decline in sales for the year was in home furnishings and electrical appliances.

The decline in gross profit for the year was $1,125,029. In the fall of 1937 the Company began taking an increasingly larger amount of mark-downs in order to reduce inventory. That practice has been continued this year and the mark-downs for the current year exceeded those of the previous year by $273,924. This increase in mark-downs combined with the decline in gross profit of $1,125,029 resulted in a decrease in merchandise profit of $1,398,953. Operating expenses exclusive of depreciation were reduced $841,230.

The inventories of merchandise at the close of the year were the lowest in the history of the Company. Comparable inventories (excluding the McCreery Store) at the end of the year were 16.1% lower than at the end of the previous year even though total sales declined 10.0%. The inventory at the end of the year was equivalent to 11.6% of the total sales for the year. At the close of the year, 82.0% of the inventory was less than six months old and 95.2% was less than one year old.

The Company and certain of its subsidiaries have received notices of proposed additional assessments of Federal income taxes in an aggregate net amount of approximately $156,000 for the three years ended January 31, 1938. The amount which they ultimately will be required to pay is not now determinable as the companies intend to contest the assessments in part. A reserve of $100,000 has been created by a charge against earned surplus (deficit) to provide for such possible additional taxes of the Company and its subsidiaries.

The McCreery Store in Pittsburgh was closed in April, 1938 and the liquidation of the assets of the store has been largely completed. The operating loss resulting from this liquidation amounted to $56,265.37 which has been charged against the operations of the current year. The losses on fixtures, improvements, and lease cancellation amounted to $174,059.33 and such losses were charged against the reserve of $300,000.00 provided in the preceding year. The unused balance of this reserve, amounting to $125,940.67, was restored to surplus this year. Approximately $35,000.00 of customers' installment accounts receivable of the McCreery Store remain to be collected. Adequate reserves have been provided for possible bad debt losses on these accounts.

The Company's 5% debenture bonds were called for redemption in January, 1939. A few of these bonds had not been turned in by the holders at the end of the year but cash was deposited with the registrar to cover principal and interest of such unredeemed bonds and the Company's liability was entirely extinguished at the end of the year.

The arrangement for selling part of the installment accounts to a bank was continued during the year. Notes payable to banks at January 31, 1938 amounted to $1,800,000.00. As a result of the sale of the installment accounts combined with the reduction of inventory and the liquidation of the McCreery Store, these notes were paid prior to May 31, 1938 and it has not been necessary to incur any additional bank obligations. Mortgage and other real estate obligations were reduced during the year by $172,733.34 and the remaining liability under such obligations amounted to $136,766.58 at the end of the year. The ratio of total current assets to total current liabilities was 4.0 to 1 at January 31, 1939, compared with 2.8 to 1 at the end of the preceding year and 2.6 to 1, two years ago.

The regular preferred stock dividends of $7.00 per share were paid during the year amounting to $46,907.00. A deficit of $415,455.88 resulted at the end of the year in the earned surplus account which reflects earned surplus since February 1, 1935. During the four year period beginning February 1, 1935, dividends aggregating $786,795.00 have been paid and charged against earned surplus.

The management believes that the accounts receivable are in a satisfactory condition. The reserve for doubtful accounts amounted to 13.6% of the uncollected customers' accounts at the end of the year. The Company has continued its conservative policy in providing such reserves.

The management desires to express its sincere appreciation for the loyalty and efficient cooperation of the Company's employees.

By Order of the Board of Directors

F. G. KINGSLEY
President

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CONSOLIDATED BALANC

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$ 1,595,295.43
Customers' accounts receivable—		
Regular retail terms	$2,116,493.55	
Installment terms, including installments maturing after one year	1,349,761.49	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $1,596,609.30 at January 31, 1939)	400,000.00	
	$3,866,255.04	
Less—Reserves for doubtful accounts (including accounts sold)	687,242.49	3,179,012.55
Due from suppliers, etc.		134,951.53
Merchandise inventories, quantities and condition determined by the companies—valued on the basis of cost or market, whichever is lower, as determined by the retail inventory method—		
On hand	$2,645,506.32	
In transit	315,646.38	2,961,152.70
TOTAL CURRENT ASSETS		$ 7,870,412.21
OTHER ASSETS:		
United States Government securities deposited in escrow as guarantee of performance of a lease—at cost (market value, $108,000.00)	$ 103,968.74	
Miscellaneous securities, etc.	54,904.51	158,873.25
FIXED ASSETS:		
Land and buildings owned and under purchase contracts, buildings on leased ground, and leaseholds (of which, property of the net book value of $262,320.17 is pledged to secure performance of a lease)—at cost, less depreciation of $1,981,989.78	$4,594,192.51	
Store fixtures—at cost, less depreciation of $1,123,474.22	1,072,903.26	
Delivery equipment—at appraised values as determined by the management	37,307.29	
	$5,704,403.06	
Land and buildings not used in store operations—at cost, less depreciation of $35,994.01	217,048.85	5,921,451.91
UNEXPIRED INSURANCE PREMIUMS, SUPPLY INVENTORIES, PREPAID EXPENSES, ETC.		227,771.04
		$14,178,508.41

NOTES:

(1) Contingent liability on customers' notes discounted

(2) Surplus of $521,819.95 is restricted by reason of p

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SHEET—JANUARY 31, 1939

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable—		
For merchandise	$ 678,934.23	
For merchandise in transit	315,646.38	
For expenses and sundries	465,759.50	$ 1,460,340.11
Accrued taxes (other than Federal income), salaries, rent and interest		315,288.01
Mortgage and other real estate obligations payable within one year		40,033.34
Preferred stock dividend payable February 15, 1939		11,630.50
Reserve for Federal income taxes, subject to review by U. S. Treasury Department		96,000.00
Reserve for redemption of trading stamps		55,565.31
TOTAL CURRENT LIABILITIES		$ 1,978,857.27
MORTGAGE AND OTHER REAL ESTATE OBLIGATIONS:		
Maturing after one year (amounts due within one year are included in current liabilities)		96,733.24
RESERVES:		
For Federal income tax which may be payable in future years on gross profit deferred for Federal income tax purposes	$ 65,000.00	
For possible additional Federal income taxes for prior years —see report to stockholders	100,000.00	165,000.00
CAPITAL STOCK AND SURPLUS:		
Capital Stock—		
Preferred stock—7% cumulative, $100 par value—callable at $105—		
Authorized and issued, 10,410 shares	$1,041,000.00	
Less—In treasury, 3,764 shares	376,400.00	$ 664,600.00
Common stock—no par value (stated value, $36.66⅔ per share)—		
Authorized and issued, 158,238 shares	$5,802,060.00	
Less—In treasury, 10,116 shares	370,920.00	5,431,140.00
Surplus segregated by the Board of Directors as of February 1, 1935, per attached statement		6,257,633.78
Earned surplus (deficit) since February 1, 1935, per attached statement		*415,455.88* 11,937,917.90
		$14,178,508.41

Italics denote deficit.

$65,381.88.

chase of treasury stock until such stock is sold or canceled.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS AND SURPLUS (DEFICIT) ACCOUNTS

For the Year Ended January 31, 1939

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Net sales (including sales of leased departments)		$25,467,539.05
Cost of goods sold, selling, operating and administrative expenses, exclusive of depreciation		25,874,635.91
		$ 407,096.86
Other Income (Net):		
Carrying charges on installment accounts, miscellaneous income, etc. (including $100,000.00 recovered in 1938 under the companies' use and occupancy insurance policies for loss of gross profit in 1937 and 1938)	$384,028.31	
Less—Loss of Pittsburgh store (in process of liquidation), exclusive of losses on fixtures, improvements and lease cancellation amounting to $174,059.33 which were charged to reserve previously provided	56,265.37	327,762.94
		$ 79,333.92
Deduct:		
Depreciation	$338,637.83	
Interest expense	68,292.17	406,930.00
Net loss before provision for Federal income taxes		*$ 486,263.92*
Combined provisions for Federal income taxes of companies with taxable income		3,850.52
Net loss carried to earned surplus		*$ 490,114.44*

SURPLUS SEGREGATED BY THE BOARD OF DIRECTORS AS OF FEBRUARY 1, 1935

Balance, January 31, 1938		$6,108,893.09
Add:		
Excess of reserve provided as of January 31, 1938 for losses on fixtures, improvements and lease cancellation at Pittsburgh store over the charges thereto, restored to segregated surplus		125,940.67
Excess of par or stated value over cost of treasury stock acquired during the year (182 shares of preferred and 1,003 shares of common stock)		22,800.02
Balance, January 31, 1939		$6,257,633.78

EARNED SURPLUS (DEFICIT) SINCE FEBRUARY 1, 1935

Balance, January 31, 1938		$ 221,565.56
Deduct:		
Net loss for the year ended January 31, 1939	490,114.44	
Dividends on preferred stock—$7.00 per share	46,907.00	
Provision for reserve for possible additional Federal income taxes for prior years—see report to stockholders	100,000.00	637,021.44
Balance (deficit), January 31, 1939		*$ 415,455.88*

Italics denote loss or deficit.

ARTHUR ANDERSEN & CO.

ACCOUNTANTS AND AUDITORS

67 WALL STREET
NEW YORK

TO THE BOARD OF DIRECTORS OF
MERCANTILE STORES COMPANY, INC.:

We have made an examination of the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as at January 31, 1939, and of the consolidated profit and loss and surplus accounts for the year ended that date. In connection therewith, we examined or tested accounting records and other supporting evidence of the company and certain of its more important subsidiaries, and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. The total assets of the companies whose records we examined represented 81.34% of the total consolidated assets, and the net sales of such companies represented 69.66% of the total consolidated net sales. The accounts of the subsidiary companies, whose records we did not examine, are included in the consolidated statements on the basis of company reports which were reviewed by us.

In our opinion, based upon the examination and review outlined in the preceding paragraph, the accompanying consolidated balance sheet and related consolidated profit and loss and surplus (deficit) accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the period under review, the financial position of the companies at January 31, 1939 and the results of their operations for the year ended that date.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
April 3, 1939.